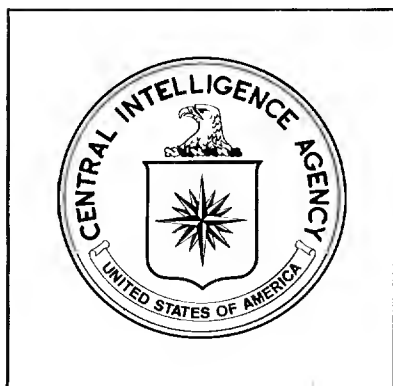


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WESTERN EUROPE -- CANADA -- INTERNATIONAL ORGANIZATIONS

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Trade Protection Builds in Textiles

Protectionist pressure is building in the international textile trade following the recent imposition of unilateral restraints on textile imports by Canada and Australia and the establishment of import licensing and monitoring arrangements by the EC and the UK.

Australia imposed tariff quotas in March on more than a dozen important industrial goods, including textiles, and this month Canada placed restraints on the import of low-cost textiles from the Far East and Eastern Europe. Exporters fear that the textile monitoring system recently established by the UK is also a prelude to import restraints on textile importers.

Last week the EC announced that it will begin a statistical monitoring of some 200 "sensitive" cotton and synthetic products on July 1. This action is intended, in part, to serve as a warning to all exporters that restraints will be imposed unless they are more forthcoming on voluntary curbs. The EC also authorized Italy to restrict the import of some cotton goods from South Korea, Pakistan and Taiwan and is considering authorizing West Germany to place similar restrictions on Brazilian exports of textiles.

Last year textile importers and exporters pledged to refrain from unilateral trade restrictions and established a Textile Surveillance Board under the General Agreement on Tariffs and Trade to monitor trade activity.

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Several states have protested the moves toward more protectionist trade policies and are requesting board action, in particular, to censure the Australians. Resolution of these issues will severely test not only the competence and effectiveness of the board but also the credibility of the whole principle of any international surveillance system over imports.

Pressures in the textile area have also prevented many countries from conforming to the international multi-fiber agreement which regulates the international textile trade by preventing sharp rises in imports disruptive of domestic industries. The EC is generally regarded as the chief offender, although several major importers still have not conformed fully to the arrangement.

Under the agreement, the EC is negotiating new bilateral textile pacts with 17 countries. EC officials contend that their new surveillance system is intended primarily to provide the statistical base required to lay the groundwork for these negotiations. The worsening international economic climate has made negotiations extremely difficult and, at present, EC negotiations have been completed with only one state--India. The EC Commission hopes that, once two or three agreements are signed, the remaining states will quickly fall into line.

Originally, the bilateral agreements were to cover a four-year period from 1974 to 1977. EC tardiness has resulted in bitter exporter complaints that the EC is holding up talks in order to postpone any movement toward trade liberalization.

Although negotiations have been underway for some time now with seven Asian states,

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major obstacles have completely stalled talks with several other states. The Commission did not receive its mandate to enter into negotiations with three Latin American states--Mexico, Brazil and Columbia--until this month.

Hungary and Romania, signatories to the international multi-fiber agreement, recently indicated their willingness to negotiate bilateral agreements with the EC. These would be the first formal agreements concluded between the community and the member states of the Council for Economic Mutual Assistance under the EC's common commercial policy.

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Portuguese Cabinet Announces More Nationalization Measures

The Portuguese Council of Ministers on Tuesday announced further nationalization measures, despite indications that Labor Minister Costa Martins as well as other leading members of the Armed Forces Movement believe that economic measures already instituted were enacted hastily and will be hard to carry out effectively.

With the new measures, government control of private business includes six tobacco companies and most cement and cellulose companies. Foreign-owned companies are not directly affected by the announcement on Tuesday.

The government also approved a minimum wage of \$160 per month, a 21 percent increase, plus an income freeze on all incomes over \$480 per month and a maximum wage of \$1,956 monthly.

These wage measures will be hard to enforce, and, to the extent they are, they are likely to accelerate the economic decline. The maximum wage provision is likely to encourage managerial and professional personnel to leave the country in increasing numbers.

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EC Aircraft Manufacturing Policy

The EC Commission recently completed a study which concludes that it has become essential for the Nine to speedily adopt a common policy to ensure that Europe retains a capacity to produce aircraft for the civil aviation market. Unless the Community were to ban sales of US aircraft in Europe--which is not even being considered--EC measures will not be sufficient to revive Europe's sagging aircraft industry in the foreseeable future.

The Commission notes that between 1970 and 1974 aircraft sales of EC members dropped from 9.5 percent of the world market to 5.9 percent. Although the value of Europe's civil aviation fleets is also increasing, the share produced by the EC members has declined--mainly because of increased sales by the US which controls four-fifths of the market. A series of US-built aircraft captured the world civil aviation market several years ago, and there is little room today for European manufacturers. The most widely used civil aircraft are all US-built and are likely to dominate the field for the next decade, leaving little room for European manufacturers. The Europeans have also suffered from competition among themselves.

The Commission sees the best hope for the Community lying in the production of aircraft for the short and medium-haul market, the area

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where they expect European airline traffic to increase.

With regard to competition with US firms, the Commission lists several options: head-on competition with US producers, identifying gaps in the market, and accommodation with US producers towards a balanced division of effort. A policy requiring West European airlines to buy non-competitive EC aircraft, however, is ruled out.

The Commission study makes a strong pitch for a common EC aircraft policy--to include integration of the national manufacturers and programming at a European level. Financing would be shared between the participating nations and the Community budget, with EC funds derived from several sources such as the European Investment Bank.

The community efforts also involve fostering closer cooperation between commercial aircraft manufacturers and major European airlines. At present, however, most of Europe's leading airlines--including British Airways and Air France--are experiencing severe operating losses and are not interested in purchasing new aircraft. Moreover, the current world recession has caused a drop in traffic demand worldwide which has forced European and other airlines to reduce their fleet inventories.

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